

## Message Text

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ACTION NEA-10

INFO OCT-01 AF-08 EUR-12 EA-07 ISO-00 SP-02 USIA-06 AID-05

EB-08 NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01

CEA-01 CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02

OPIC-03 LAB-04 SIL-01 L-03 H-01 PA-01 PRS-01 AGRE-00

FEAE-00 MMO-01 /113 W

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R 311121Z JAN 77

FM AMEMBASSY JIDDA

TO SECSTATE WASHDC 7098

INFO AMEMBASSY ABU DHABI

AMEMBASSY AMMAN

AMEMBASSY BEIRUT

AMCONSUL DHAHRAN

AMEMBASSY DOHA

AMEMBASSY KHARTOUM

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY MANAMA

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY SANA

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 1 OF 2 JIDDA 0836

E.O. 11652: GDS

TAGS: EGEN, EFIN, SA

SUBJECT: SAUDI ECONOMY AND DEVELOPMENT PLAN: 1976

ACHIEVEMENTS AND PROSPECTS FOR 1977

SUMMARY: 1976 SAW CONTINUED GROWTH IN THE SAUDI ECONOMY,  
ACCOMPANIED HOWEVER BY SERIOUS BOTTLENECKS, INFLATION,  
AND UNEVEN DEVELOPMENT PROGRESS. THE PACE OF THE OVERHEATED  
ECONOMY HAS SLOWED DOWN RECENTLY; BUT WE EXPECT A MODERATED  
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RENEWAL OF HIGHER RATES OF PUBLIC AND PRIVATE SPENDING BY  
MID 1977. END SUMMARY.

1. THE SAUDI ARABIAN MONETARY AGENCY (SAMA) HAS JUST REALEAS-  
ED ITS REPORT FOR TH MUSLIM FISCAL YEAR 1395-96,  
ENDING JUNE 27, 1976. THE SAMA REPORT, WHICH CONTAINS THE  
MOST AUTHORITATIVE PUBLISHED SET OF SAUDI ECONOMIC

STATISTICS, PAINTS A PICTURE OF CONTINUED GROWTH IN 1975-76. ACCORDING TO THESE FIGURES GROSS DOMESTIC PRODUCT (GDP) INCREASED 16 PERCENT TO \$44.3 BILLION IN CURRENT PRICES IN SPITE OF A FALL IN OIL PRODUCTION. THE PRIVATE NON-OIL CONTRIBUTOR TO GDP INCREASED A HEALTHY 48 PERCENT, THOUGH THE GOVERNMENT NON-OIL CONTRIBUTION INCREASED STILL FASTER OR BY 59 PERCENT. IMPORTS ALSO INCREASED IN SPITE OF SERIOUS PORT CONGESTION REACHING TO \$8 BILLION OR A 58 PERCENT INCREASE OVER THE PREVIOUS YEAR IN CURRENT PRICES (CIF). ESTIMATED GOVERNMENT EXPENDITURE ALSO ROSE BY 121 PERCENT; THIS HELPED FUEL AN ALREADY SERIOUS INFLATION. REFLECTING THIS GROWTH OF GOVERNMENT EXPENDITURE THE BALANCE OF PAYMENTS SURPLUS ON CURRENT ACCOUNT INCREASED AT A SLOWER RATE THAN DURING THE PREVIOUS YEAR (\$16.3 AS OPPOSED TO \$22.4 BILLION) WHILE OFFICIAL FOREIGN ASSETS INCREASED BY \$16.3 BILLION, DOWN FROM THE \$18 BILLION INCREASE OFFICIALLY ANNOUNCED THE YEAR BEFORE.

2. WHILE THE SAMA REPORT TREATS SOME OF THE MAJOR SAUDI ECONOMIC AND FINANCIAL PROBLEMS, PARTICULARLY INFLATION, FAIRLY FRANKLY, IT DOES GILD THE LILY. THE ECONOMIC INDICATORS WERE PUSHED UP IN 1975-76, AS THEY WILL BE IN 1977, BY THE EVER INCREASING FLOW OF OIL REVENUES. BUT REAL SAUDI GROWTH, THOUGH DRAMATIC, CONTINUES TO BE SPOTTY AND HAMPERED BY THE THINNESS OF THE COUNTRY'S HUMAN AND PHYSICAL RESOURCES.

3. OIL RESOURCES WILL INCREASE DRAMATICALLY IN 1977, EVEN  
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IF PRICES REMAIN AT THEIR CURRENT LEVEL. THE BIGGEST UNKNOWN AT PRESENT IS THE RATE OF THE COUNTRY'S OIL PRODUCTION. IF 1977 PRODUCTION AVERAGES 10 MILLION BARRELS PER DAY, SAUDI GOVERNMENT TAKE WILL BE APPROXIMATELY \$42.5 BILLION (ASSUMING THE ARAMCO TAKEOVER TERMS RE IN EFFECT AND LAGS IN PAYMENTS MINIMAL). EACH ADDITIONAL (OR SUBTRACTED) HALF MILLION BARRELS PER DAY WOULD BE WORTH ABOUT \$2 BILLION OVER THE YEAR. THESE FIGURES COMPARE TO THE \$33.5 BILLION IN REVENUE REPORTED BY SAMA FOR THE LAST FISCAL YEAR, AND AN ESTIMATED \$35 BILLION FOR CALENDAR 1976. SAG REVENUE FROM OTHER SOURCES WILL APPROXIMATE \$2 BILLION IN 1977.

4. ALTHOUGH ACTUAL GOVERNMENT EXPENDITURE FIGURES ARE CLOSELY HELD, SAMA ESTIMATES THEY RUN AT ABOUT 70 PERCENT OF BUDGET ALLOCATIONS OR \$22 OUT OF \$31.4 BILLION DURING THE LAST FISCAL YEAR. THIS SPENDING HAS HAD A SERIOUS INFLATIONARY IMPACT ON AN ECONOMY WHICH WAS ALREADY OVERHEATED BECAUSE OF SUPPLY BOTTLENECKS AND/OR INEFFICIENCIES, LABOR

SHORTAGES, LAND SPECULATION, ETC. MEASURED BY THE OFFICIAL CONSUMER PRICE INDEX, INFLATION REACHED 30 PERCENT OVER THE LAST FISCAL YEAR. MOST OBSERVERS BELIEVE IT TO HAVE BEEN OVER 40 PERCENT.

5. INFLATION HAS BEEN A MAJOR CONCERN OF THE SAG'S ECONOMIC ESTABLISHMENT, AND IS HIGHLIGHTED IN THE SAMA REPORT. IN AN EFFORT TO DRAMATIZE THE NEED TO KEEP EXPENDITURE, AND RESULTANT HIGH LIQUIDITY, UNDER CONTROL, THE CURRENT (1976-77) BUDGET HAS BEEN HELD AT THE CEILING OF \$31.4 BILLION ESTABLISHED BY LAST YEAR'S BUDGET. MOREOVER, THE RATE OF INCREASE IN GOVERNMENT EXPENDITURE HAS BEEN SLOWED DOWN SOMEWHAT THROUGH TIGHTER GOVERNMENT REVIEW OF PROJECT PROGRESS, CONTROL (AND EVEN REPORTED DELAYS) IN DISBURSEMENTS, PLUS A STRETCHING OUT OF SOME MAJOR PROJECTS-ALTHOUGH THE LATTER HAS BEEN CAUSED BY VARIOUS FACTORS IN ADDITION TO THE DESIRE TO FIGHT  
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INFLATION.

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C O N F I D E N T I A L SECTION 2 OF 2 JIDDA 0836

ACTUAL EXPENDITURES ARE CURRENTLY RUNNING, ACCORDING TO VERY INCOMPLETE INFORMATION, AT A RATE SLIGHTLY ABOVE LAST YEAR'S; WE ESTIMATE THEY COULD REACH \$25 BILLION DURING THE SAUDI FISCAL YEAR WHICH WILL END JUNE 16. MONEY SUPPLY CONTINUED TO GROW IN THE LAST FISCAL YEAR AT A RATE REFLECTING THE GOVERNMENT SPENDING, OR APPROXIMATELY 25 PERCENT FOR M2 DURING THE FIRST SEVEN MONTHS OF 1976; THE SAG HOPES THAT THIS WILL DROP AS THE RATE OF INCREASE IN  
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BUDGETARY DISBURSEMENTS LEVELS OF DURING THE CURRENT FISCAL YEAR.

6. SAG EFFORTS TO SLOW INFLATION HAVE NOT BEEN RESTRICTED TO BUDGET CONTROL. PRIORITY ATTENTION HAS BEEN GIVEN TO DE-BOTTLENECKING THE PORTS, AND OTHER PROGRAMS SUCH AS FREE HOUSING LOANS, SUBSIDIES OF BASIC FOODSTUFFS, AND SELECTIVE PRICE CONTROLS HAVE HAD SOME EFFECT. HOWEVER, THE SAG DESIRE (NOT TO SPEAK OF CAPACITY) TO INSTITUTE HARD ECONOMIC CONTROLS, REMAINS LOW, AND MUCH OF THE STREAM OF STATEMENTS AND DIRECTIVES EMANATING FROM VARIOUS MINISTRIES WITH CONCERN TO PRICE CONTROLS, PROFIT MARGIN CEILINGS, ETC. SHOULD BE SEEN MORE AS A JAWBONING EFFORT THAN AS ENFORCEABLE REGULATION. EVEN THE SAUDI FOOD SUPPLY COMPANY, CHARTERED LAST SUMMER OSTENSIBLY TO COMPETE WITH OR UNDERMINE THE PRIVATE SECTOR IMPORTERS WHO WERE CONSIDERED TO BE MAKING UNDUE PROFITS, HAS REMAINED AN EMPTY SHELL.

7. INFLATION HAS NONETHELESS SLOWED. THE CONSUMER PRICE INDEX SHOWED AN INCREASE OF ONLY 4 PERCENT IN THE THIRD QUARTER OF 1976, AND THE LAST QUARTER'S STATISTICS WILL REPORTEDLY BE EQUALLY LOW. THE REAL ESTATE BOOM HAS ENDED, AND PRICES OF SOME HOUSING UNITS ARE ACTUALLY FALLING. CEMENT AND OTHER CONSTRUCTION GOODS ARE NOW READILY AVAILABLE AT REASONABLE PRICES (FOR SAUDI ARABIA), AND THE CURRENTLY IMPROVED PORT SITUATION HAS EVEN ALLOWED CREATION OF SOME SURPLUSES

(INCLUDING IN MAJOR ITEMS SUCH AS AUTOMOBILES). WHILE WE BELIEVE THIS TO BE A PAUSE RATHER THAN A BREAK IN SAUDI GROWTH, THE BOOM PSYCHOLOGY HAS APPARANTLY BEEN AFFECTED. ECONOMIC ACTIVITY, WHEN IT PICKS UP SPEED LATER IN THE YEAR, WILL PROBABLY BE AT A MORE MODERATE LEVEL. THE REAL ESTATE SLUMP IN PARTICULAR IS LIKELY TO TAKE THE EDGE OFF THE UNBRIDLED OPTIMISM WHICH HAS  
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PREVAILED OVER THE PAST TWO YEARS.

8. IMPLEMENTATION OF THE DEVELOPMENT PLAN HAS BEEN SPOTTY. WHILE THE OVERALL LEVEL OF GOVERNMENT SPENDING HAS BEEN BROUGHT UP BY GOVERNMENT OPERATING EXPENSES AND THE DEFENSE SECTOR, SPENDING ON THE PROJECT BUDGET LAST FISCAL YEAR REACHED ONLY 60 PERCENT OF ALLOCATIONS, ACCORDING TO SAMA ESTIMATES. ACCORDING TO A FOLLOW-UP REPORT NOW UNDER PREPARATION IN THE MINISTRY OF PLANNING, ONLY 48 PERCENT OF THE MONEY ALLOCATED FOR ONGOING PROJECTS IN THE LAST FISCAL YEAR WAS SPENT, AND ONLY 50 PERCENT OF NEW PROJECTS PLANNED FOR INITIATION DURING THE YEAR WERE ACTUALLY STARTED. IN SOME AREAS (ELECTRICITY, HEALTH, PUBLIC HOUSING), EXPENDITURES WERE UNDER 20 PERCENT OF ALLOCATIONS. MORE-OVER, INFLATION HAS EATEN INTO THE VALUE RECEIVED, AND PROGRESS HAS OFTEN BEEN SPOTTY AND ILL-COORDINATED. OFFICIALS AT THE MINISTRY OF PLANNING ARE ATTEMPTING TO SET UP A MEANINGFUL FOLLOW-UP SYSTEM TO MONITOR OVERALL PLAN PROGRESS, IDENTIFY NEW BOTTLENECKS OR OUT-OF-PHASE DEVELOPMENTS IN TIME, AND RECOMMEND SOLUTIONS. WE EXPECT THEY WILL MAKE LITTLE DENT IN THE SAG'S PENCHANT FOR AD HOC DECISIONS ON PROJECT IMPLEMENTATION AND COORDINATION.

9. THE PLAN'S PROJECTS ARE NONETHELESS PICKING UP SPEED, AND IN SPITE OF THE STRETCH ONTO MANY OF THE MAJOR PROJECTS NOW IN THE STUDY STAGE WILL PASS INTO THE MAJOR CONSTRUCTION PHASE IN 1977. THE OUTLOOK IS THUS FOR HIGHER RATES OF EXPENDITURE IN 1977-78, UNLESS THE SAG IMPOSES DRACONIAN BUDGET LIMITATIONS IN THE EFFORT TO CONTROL INFLATIONARY PRESSURES, OR CANCELS PROJECTS WHOLESALE. THE GOVERNMENT HAS BEEN SCARED, TO A DEGREE, BY THE DANGERS OF RUNAWAY INFLATION AND DEVELOPMENT, AND IT IS ANXIOUS TO PROTECT THE RECENT IMPROVEMENTS IN THE SUPPLY SITUATION AND INFLATION  
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RATE. WITH CONSUMER DEMAND AND GOVERNMENT DESIRE TO  
SPEND REMAINING HIGH, HOWEVER, A NEW EXPANSION IS  
CLEARLY IN THE OFFING. MONEY, AFTER ALL, IS NOT IN  
SHORT SUPPLY - AT LEAST NOW YET.

10. COPIES OF SAMA REPORT HAVE BEEN POUCHED TO CERP  
ADDRESSEES.  
PORTER

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## Message Attributes

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